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ACTION AF-00

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FM AMEMBASSY NDJAMENA
TO SECSTATE WASHDC 2819
INFO AMEMBASSY ABUJA
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AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY NIAMEY
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LONDON AND PARIS FOR AFRICA WATCHERS, TREASURY FOR OTA,
ENERGY FOR GPERSON AND CGAY

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SUBJECT: CHAD: OIL REVENUE LAW UPDATE

REF: NDJAMENA 1760 AND PREVIOUS

1. (SBU) SUMMARY: The Government of Chad (GOC) has formally invited a World Bank team to come to Chad to discuss the Government's proposed amendments to the Oil Revenue Law and strengthening of the Public Finance System. Some donors have expressed concern that continued disagreement between the World Bank and the GOC over the proposed elimination of the Fund for Future Generations and the inclusion of security as a priority sector might jeopardize the success of the mission, currently projected for January 2006. The Minister of Finance has stated that while he and the GOC appreciate the team's visit, the Government will maintain its sovereign right to amend its laws. National Assembly debate over the revisions to the Oil Revenue Law is still scheduled for December 29, but we do not anticipate a vote the same day. The GOC has clarified which changes it seeks to the draft terms of reference of the U.S. Department of Treasury Resident Advisor. We are hopeful that this will resolve the impasse over placement of the Advisor at the Oil College.
END SUMMARY.

GOC AGREES TO ACCEPT WORLD BANK TEAM, DONORS HAVE CONCERNS

2. (U) On December 21, the World Bank convened a donors' meeting/audioconference in N'Djamena to update donors on the status of negotiations with the Government pertaining to revisions to the Oil Revenue Management Law. Representatives from the IMF, African Development Bank, French Development Agency, French Embassy, the European Commission, and the U.S. Embassy were present. The audioconference included representatives from Paris, Brussels, and Washington. Ali Khadr, World Bank Country Director for Central Africa, and Marie-Francoise Mary-Nelly, World Bank Coordinator for the Chad-Cameroon Pipeline, began the meeting by expressing the World Bank's satisfaction with the receipt of a letter from Prime Minister Pascal Yoadminadji's office, which accepted to host a World Bank/IMF mission. Khadr stated that upon receiving the blessing of Senior Management, the Bank would send a letter outlining the details of the missions that would be arriving in Chad.

3. (U) While the details of the mission were still being finalized, Khadr stated that the Bank's tentative plan was to send two missions: a technical assessment mission on January 15, and a high-level political delegation on January 29. According to Khadr, the technical assessment mission would discuss the GOC's proposed revisions to the Revenue Management Laws, examine the current budgetary process and explore needs for technical assistance to strengthen the current system, and identify financing requirements to relieve any financing gaps in the 2005 budget. The political delegation (which would be led by the WB's Senior Vice President for Africa and the Director of the African Department) would relay the findings of the assessment

mission to the GOC, and resolve any specific differences with the Government.

14. (SBU) Donors also discussed the GOC's preparation of the 2006 Budget. IMF Representative Wayne Camard stated that, based on discussions with the Ministry of Finance, the Government had not made a decision on whether to pass a temporary budget for 2005 and amend it if the amendments to the Revenue Management Laws are approved, or if they would extend the 2005 budget into 2006 and maintain spending through continuing resolutions. Khadr stated that it was important for the GOC to make its intentions clear on the 2006 Budget before the assessment team arrived in January, as a lack of concrete position would make the team's mission extremely difficult.

15. (SBU) Following the premature cut-off of the audioconference (due to technical difficulties), donor representatives in N'Djamena exchanged views on the current negotiations. While IMF representative Camard was optimistic that the January visits could resolve differences over the revisions to the oil laws, representatives from the European Commission and the French Embassy pointed out that the basic disagreements between the World Bank and the GOC over the

elimination of the Fund for Future Generations and the inclusion of security as a priority sector still had not been resolved. They expressed concern that the failure to resolve these points before the arrival of the team may pose a problem for the team's ability to carry out its assessment. Camard asked the donors whether their respective organizations would be open to contributing resources to GOC financing needs to close any spending gaps. The donors stated they would have to know exactly what the financing would be used for, and what the spending limits would actually be. French Economic Attach Marco Bellito stated that while the French were open to providing resources for demobilization efforts, they would not approve of spending for military equipment. The European Commission representative concurred with this assessment, and said that clear boundaries needed to be delineated before the EC could even consider providing additional financing.

MINISTER WELCOMES DIALOGUE, ASSERTS SOVEREIGNTY, DEBATE STILL SCHEDULED

16. (SBU) On December 23, Minister of Finance Abbas Tolli told Charge that the invitation of the World Bank team by the Government was a positive step in enhancing dialogue between the Bank and the GOC, and he looked forward to their recommendations for the Public Finance System. The Minister pointed out that he and his colleagues understand the importance of current IFI programs, and want to ensure that they continue. However, he noted that points of blockage still remained between the two parties, and the Government would stand firm on maintaining its sovereign right to amend the oil revenue laws to benefit the country. The Minister reiterated the GOC's argument that the PRSP, in which the international partners identified specific economic and social needs in-country, required financial resources that the Government did not have. Freeing up the resources from the Fund for Future Generations (FFG) would allow the Government to make progress on the PRSP, and alleviate current social tensions associated with salary arrears and failing public services. He also pointed out that the Government would not accept a solution that was imposed by the World Bank.

17. (SBU) With respect to the 2006 Budget, Tolli stated that the Government was still trying to decide whether to pass a budget law in the near future and rectify it based on the outcome of vote in the National Assembly, or to pass a continuing resolution to extend the 2005 budget, and allow the debate to be completed. For the time being, the Minister stated the debate was scheduled for December 29, and he added that the President of National Assembly told him that unless the Government said otherwise, the debate would move forward. (NOTE: E/C Officer confirmed with the Secretary General of the National Assembly that the debate was scheduled for December 29, but that was susceptible to change if the committees designated to resolve internal disagreements among ruling-party deputies over the proposed amendments could not complete their work in time. END NOTE).

PROGRESS ON STATUS OF TREASURY ADVISOR

18. (SBU) During meetings with Finance Minister Tolli and Minister of Plan, Economy, and Cooperation Mahamat Hassan, Charge was informed that the status of the Department of Treasury's Resident Advisor, Linda Gregory, was close to

being resolved. Minister Hassan provided Charge with a copy of a letter addressed from the Government to the Revenue Management College outlining proposed amendments to the Resident Advisor's Terms of Reference. Both Tolli and Hassan stated that once the amendments were made, they foresaw no other obstacles that would prevent Ms. Gregory from taking up her duties.

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COMMENT

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19. (SBU) The Government willingness to host a Bank-Fund team is definitely a positive step towards resolving differences between the World Bank and the GOC over proposed revisions to the oil revenue law. However, the fact that the basic points of disagreements still remain over the elimination of the FFG and the inclusion of security as a priority sector means that significant obstacles remain before any type of compromise can be reached. The Government seems adamant in maintaining these two items in any resolution, and other donors seem hesitant to accept changes on these fronts. We are pleased that the GOC has moved forward on our Resident Advisors' Terms of Reference. We will follow up with the College to make sure that the process continues, and hope to have her fully installed at the beginning of the new year.

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